

## Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ARA-14 EUR-12 EA-12 IO-14 ISO-00  
AGRE-00 CEA-01 CIAE-00 COME-00 DODE-00 FRB-01  
H-02 INR-10 INT-05 L-03 LAB-04 NSAE-00 NSC-05  
PA-02 CTME-00 AID-05 SS-15 STR-07 ITC-01 TRSE-00  
USIA-15 SP-02 SOE-02 OMB-01 DOE-11 /163 W  
-----012497 162110Z /64

P R 161901Z MAR 78

FM AMCONSUL SAO PAULO

TO SECSTATE WASHDC PRIORITY 8371

INFO AMEMBASSY BRASILIA

AMCONSUL RIO DE JANEIRO

AMEMBASSY DAR ES SALAAM

AMEMBASSY NAIROBI

AMEMBASSY SAN SALVADOR

AMEMBASSY GUATEMALA

AMEMBASSY MEXICO

AMEMBASSY MANAGUA

AMEMBASSY BOGOTA

AMEMBASSY YAOUNDE

AMEMBASSY JAKARTA

AMEMBASSY ABIDJAN

AMEMBASSY KINSHARA

AMEMBASSY ADDIS ABABA

AMEMBASSY SAN JOSE

AMEMBASSY CANBERRA

AMEMBASSY BRUSSELS

AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY BERN

USMISSION GENEVA

AMEMBASSY PORT MORESBY

AMEMBASSY CARAS

AMEMBASSY PANAMA

AMEMBASSY LONDON

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AMEMBASSY LIMA

AMEMBASSY SANTO DOMINGO

AMEMBASSY TEGUCIGALPA

UNCLAS SAO PAULO 0786

E.O. 11652: N/A

TAGS: EAGR, ETRD, BR

SUBJECT: SANTOS COFFEE TRADERS CONSIDER DROUGHT IMPACT SIGNIFICANT BUT NOT DECISIVE

SUMMARY: DROUGHT IN SAO PAULO, PARANA AND MINAS GERAIS IS EXPECTED BY SANTOS TRADERS TO REDUCE ANTICIPATED 20-22 MILLION BAGS BRAZILIAN COFFEE CROP BY AT LEAST 20 PERCENT, BUT FULL EFFECT WILL NOT BE KNOWN UNTIL CROP ACTUALLY HARVESTED. JULY 1, 1978 STOCKS OF 11 TO 12 MILLION BAGS PLUS REDUCED CROP, WHATEVER IT IS, ARE EXPECTED TO COVER DOMESTIC AND EXPORT DEMAND UNTIL CROP HARVESTED IN 1979 COMES IN. THIS IS CONSENSUS OF SANTOS TRADERS INTERVIEWED. END SUMMARY.

1. CONSUL GENERAL SURVEYED SIX WELL KNOWN AND RELIABLE SANTOS COFFEE TRADE SOURCES, INCLUDING LARGEST SOLUBLE EXPORTER, THREE FIRMS TRADITIONALLY ASSOCIATED WITH AMERICAN IMPORTERS AND LARGE SWISS WORLDWIDE COFFEE TRADE FIRM.

2. CONSENSUS WAS THAT INTENSE DROUGHT AND EXTREME HEAT IN COFFEE GROWING AREAS DURING JANUARY HAD CAUSED EXTENSIVE DAMAGE TO COFFEE BEANS BEING FORMED WITHIN APPARENTLY HEALTHY COFFEE "CHERRIES", WHEN LATTER INSPECTED EXTERNALLY. DAMAGE EXTENDS TO SOUTH MINAS AND PARANA NOW, NOT JUST CERTAIN AREAS OF SAO PAULO STATE, AS ORIGINALLY REPORTED. EXTENSIVE FIELD OBSERVATIONS AND TESTS WERE MADE BY A&P REPRESENTATIVE INTERVIEWED BY CONGEN AND SUMMARY TABLE THESE TESTS OBTAINED. CROP LOSS BELIEVED TO BE AT LEAST 20 PER CENT, WHICH COINCIDES WITH ESTIMATE.  
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MATE OF AGRICULTURAL INSTITUTE OF CAMPINAS, BUT VETERAN COFFEE TRADERS CONCLUDED THAT TRUE EXTENT COULD ONLY BE DETERMINED WHEN HARVEST ACTUALLY MADE AND CHERRIES DEHUSKED. BELIEF WAS THAT LOSS COULD BE GREATER. MOST TRADERS USED PRE-DROUGHT COFFEE CROP ESTIMATES IN 20 TO 22 MILLION BAG RANGE OR CLOSE TO INITIAL IBC ESTIMATE OF 20 MILLION BAGS. ON THIS BASIS, PRESENT ESTIMATES ARE IN 15 TO 18 MILLION BAG RANGE, WITH MOST GROUPED TOWARD LOWER END.

3. EXPORTS DURING FIRST HALF CALENDAR 1978 ESTIMATED NOT TO EXCEED 5 MILLION BAGS, OR 1 MILLION A MONTH FOLLOWING FIRST TWO MONTHS' EXPORTS WHICH TOTALLED JUST UNDER 1 MILLION BAGS. TOTAL FOR COFFEE YEAR 77/78 THUS UNDER 7 MILLION BAGS.

4. DOMESTIC CONSUMPTION GENERALLY AGREED TO BE 6 TO 6.5 MILLION BAGS IN CALENDAR 1977 WITH SLIGHT INCREASE IN 1978.

5. COFFEE STOCKS ESTIMATED BY EXPORTERS AT 11 TO 12 MILLION BAGS ON JULY 1, 1978, (VIRTUALLY ALL OF WHICH IN PRIVATE HANDS) USING DOMESTIC CONSUMPTION AND EXPORT FIGURES IN PARAS 3 & 4.

6. CONCLUSION WAS THAT ENOUGH COFFEE WOULD BE AVAILABLE TO COVER TOTAL DEMAND DURING 78/79 CROP YEAR, EVEN WITH A NEW BRAZILIAN CROP

OF ONLY 15 TO 18 MILLION BAGS. PRICES WOULD TREND TOWARD ON  
INTERNATIONAL  
MARKETS, AND BRAZILIAN GOVERNMENT WOULD FACE A PROBLEM IN MAINTAI-

NING ITS DOMESTIC IBC PURCHASE PRICE AT CR\$2,500 AND SIMULTANEOUSLY  
PUSHING COFFEE EXPORTS. CONSIDERABLE SUBSIDY PAYMENTS WOULD HAVE TO  
BE MADE OR IBC WOULD HAVE TO ADJUST, AS IT DID LATE LAST YEAR,  
TO INTERNATIONAL MARKET FORCES. THE ONE MAJOR UNKNOWN WAS WHETHER  
THERE WOULD BE ANOTHER FROST IN 1978, FOR THE RECENT HISTO-  
RICAL PATTERN HAS BEEN FREEZES OF VARIOUS INTENSITIES IN 1969, 1972  
AND 1975. UNLIKE POST 1975 PERIOD WHEN IBC CONTROLLED EXTENSIVE STOCKS

WHICH IT SOLD OFF PROGRESSIVELY, THE IBC HAD LESS THAN A MILLION BAGS  
IN STOCK AND PRIVATE PRODUCERS AND TRADERS WOULD HOLD STOCKS IN THE  
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EVENT OF A FROST AND NOT EXPORT, FORCING PRICES TO UNCALCULABLY HIGH  
LEVELS.

7. COMMENT: FAS BRAZIL HAS SCHEDULED A FIELD SURVEY OF THE PRINCIPAL  
COFFEE REGIONS APRIL 3 TO 12 AFTER WHICH FAS WILL PROVIDE ADDITIONAL  
DETAILS AND ITS VIEWS ON THE EFFECT OF THE DROUGHT. CONSUL GENERAL'S  
MOMORANDA OF CONVERSATIONS BEING REPORTED BY AIGRAM TO WASHINGTON.  
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## Message Attributes

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**Disposition Approved on Date:**  
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**Review Markings:**  
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